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March 17, 2009

#### **AGENDA ITEM 4**

**TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

- I. SUBJECT:** State Legislative Proposal: Electronic Funds Transfer
- II. PROGRAM:** Legislation
- III. RECOMMENDATION:** Staff recommends that the Board **sponsor** legislation that would allow the Board to require that contracting agencies use Electronic Funds Transfer (EFT) for the payment of amounts due to CalPERS.
- IV. ANALYSIS:**

This proposal would allow the Board of Administration to require the use of EFT by our employers for retirement contributions, health premiums, and other amounts due to CalPERS.

#### **Background**

Currently, CalPERS contracting agencies are allowed to pay retirement contributions and health premiums through EFT, or through paper check. Approximately 40 percent of all retirement contributions are paid through EFT. However, with the implementation of PSR, CalPERS hopes to increase the use of EFT to 100 percent of all contracting agency transactions.

EFT is defined by California Revenue and Taxation Code. This definition would be adopted by CalPERS in this proposed legislation. A new section using the Revenue and Taxation Code as a model will be added to the Government Code defining EFT as any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, or computer or magnetic tape so as to order, instruct, or authorize a financial institution to credit or debit an account. It would not, however, authorize the use of credit cards for payment. CalPERS does not intend to offer a telephone payment option at this time.

Other California Public agencies are beginning to implement similar policies. Employment Development Department currently requires employers with payroll taxes in excess of \$20,000 per year to use EFT. Franchise Tax Board also requires companies that meet certain levels of tax liability, depending on the type of business, to pay using EFT.

### **Proposed Changes**

This proposal would make the following changes in existing law:

1. Authorizes the board to require that contracting public agencies make payments for retirement contributions and health premiums due to CalPERS through EFT.
2. Defines the term “electronic funds transfer” as used in this part.
3. Provides a process for obtaining an EFT requirement waiver from the CalPERS board.
4. Allows the board to designate acceptable alternative payment methods to be used by a public agency that obtains an EFT waiver.
5. States that the requirement will become effective upon declaration by the Board.

### **Legislative History**

1994 Chapter 271 (AB 3389, Friedman) — Authorized Franchise Tax Board to require organizations meeting specified conditions to use EFT when making tax payments. *CalPERS’ position: none*

### **Other States**

Other states are also starting to implement similar policies. Oregon Public Employees Retirement System still accepts paper checks, but charges a per-check processing fee to offset the increased workload caused by paper transactions. Kansas Public Employees Retirement System recently mandated that employers pay using EFT. They also grant waivers to employers who successfully petition their Board for an exception.

### **Discussion**

EFT payments reduce the need for manual processing, which in turn reduces the potential for errors and increases efficiency. It also saves on the use of paper, and is consistent with industry best practices. Both CalPERS and its employers will be able to predict the exact day money will be withdrawn from or deposited to, an account and plan accordingly.

In the past, one impediment to contracting agency participation in EFT was the inability to use the credit method of payment. There are two methods by which an

EFT transaction can be processed, the credit method, whereby an agency provides its bank with instructions for transmitting funds to CalPERS and the debit method, whereby a contracting agency provides its account information and authorizes CalPERS to withdraw funds. Currently only the debit method is available, but employers have shown a desire to implement the credit method as well before they begin to participate. This is largely a result of hesitance on the part of the employer to give other entities broad access to their financial accounts. Such access is not necessary with the credit method. With the implementation of this legislation, CalPERS will assure both methods will be available. However, payments using a credit card would not be an available option.

This system will also allow CalPERS to provide payroll reports online, allowing contracting agencies greater access to information regarding their account. This will, in turn, allow employees faster access to their personal accounts online, with fewer errors or lags in posting information.

Contracting agencies that are unable to comply with the EFT requirements will be able to request an EFT requirements waiver from the CalPERS board. Waivers will be based on certain predetermined circumstances.

#### **V. STRATEGIC PLAN:**

This proposal addresses two goals within our strategic plan. It would aid CalPERS in its stated desire to “exercise global leadership to ensure the sustainability of CalPERS’ pension and health benefit systems” and, to “sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies.”

#### **VI. RESULTS/COSTS:**

This proposal would increase efficiency while reducing errors in payroll reporting. It would also allow CalPERS to serve our members and employers in a timelier manner.

##### Program Cost:

None identified. However, the improvements in accessibility and accuracy of information may benefit employers in budgeting and financial planning.

##### Administrative Cost:

The State Treasurer provides EFT services to state agencies at no cost. Since CalPERS plans on using the EFT services provided by the State Treasurer, this proposal would not increase administrative costs. Additionally, there may be undetermined administrative savings as a result of the anticipated increases in efficiency and reductions in error.

Members of the Benefits and Program Administration Committee  
March 17, 2009

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